

Message Text

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ACTION EB-06

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FM AMEMBASSY BRIDGETOWN

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LIMITED OFFICIAL USE BRIDGETOWN 1928

E.O. 11652: N/A

TAGS: ETRN EAIR AC BB ST

SUBJ: CIVAIR: AGREEMENT REPORTED ON LIAT PRICE

REF: BRIDGETOWN 1850 AND PREVIOUS

1. REUTER'S ARTICLE DATED NOVEMBER 4, 1974 QUOTES ST. LUCIA
PREMIER JOHN COMPTON AS DISCLOSING THAT GOVERNMENTS OF ASSOCIATED
STATES AND GRENADA ARE TO PURCHASE LIAT ASSETS, INCLUDING TEN
OPERATIONAL AIRCRAFT, FOR TOTAL PRICE OF APPROXIMATELY US DOLS
5.2 MILLION. PURCHASE WOULD BE MADE BY NEWLY-FORMED ANTIGUA-

BASED CORPORATION "LIAT 1974" WITH BRIDGING FINANCING BEING PRO-
VIDED BY GOVERNMENT OF VENEZUELA. COMPTON, WHO RETURNED RECENTLY
FROM AVIATION TALKS IN BRITAIN AND CANADA, REPORTEDLY ANNOUNCED
THAT GROUP OF CANADIAN HOTELIERS WILL CONTINUE OPERATION OF TWO
ST. LUCIA HOTELS OWNED BY NOW DEFUNCT COURT LINE. COMPTON ALSO
SAID THAT MEETING OF CARICOM GOVERNMENTS IN ANTIGUA ON NOVEMBER 15
WOULD FORMALIZE ARRANGEMENTS AND AGREE ON PARTICIPATION
LEVELS.

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2. LIAT PRICE TAG IS CONSIDERABLY MORE THAN PREVIOUS ESTIMATES. IN FACT, COMPTON HIMSELF TOLD CANADIANS TWO WEEKS AGO THAT LIAT BUYERS WERE LOOKING AT DOLS 3.5 MILLION AS TOP OFFER. APPARENTLY LIAT LIQUIDATORS DROVE HARDER BARGAIN THAN EXPECTED. NEVERTHELESS, AGREEMENT ON PRICE REPRESENTS PROGRESS FOR AREA GOVERNMENTS WHOSE NEXT PROBLEM NOW IS TO FIND SOURCE OF PERMANENT FINANCING FOR "LIAT 1974". PRESUMABLY THEY CONTINUE TO EXPECT CONTRIBUTIONS FROM BARBADOS AND JAMAICA AND EVENTUAL PARTICIPATION IN PROJECT BY CDB. (GOV LOAN IS INDEED TEMPORARY AND NON-CONCESSIONARY, BEING LENT AT MARKET RATES). GOB CABINET APPROVED PARTICIPATION IN LIAT SUCCESSOR "IN PRINCIPLE" (ALBEIT WITHOUT HAVING CLEAR IDEA OF PRICE) AND COMPTON APPARENTLY STILL HAS HOPES THAT GOJ WILL COME THROUGH AS SHAREHOLDER.

3. TWO MAJOR PROBLEMS REMAIN, NAMELY, SECURING OF PERMANENT FINANCING FOR LIAT SUCCESSOR AND EVEN MORE DIFFICULT MATTER OF RESTRUCTURING MANAGEMENT, ROUTES AND TARIFFS TO ENSURE THAT NEW CARRIER WILL BE ECONOMICALLY VIABLE. ARRANGEMENTS MADE BY

COMPTON AND OTHERS ARE PALPABLY TEMPORARY WITH A VIEW TO PREVENTING LIAT'S COLLAPSE AND ENSURING UNINTERRUPTED CONTINUATION OF AIR SERVICES. REPORTEDLY AT LEAST TWO STUDIES, ONE BY AIR CANADA AND ONE PERFORMED BY U.K. ACCOUNTING FIRM, HAVE ANALYZED LIAT POSITION AND REQUIREMENTS FOR PUTTING CARRIER IN BLACK. AS NECESSARY MEASURES WOULD UNDOUBTEDLY INCLUDE RATIONALIZATION OF AIR SERVICES, RAISING OF FARES AND PARING OF STAFF, IT WILL BE DIFFICULT TO GET LDC TERRITORIES TO REACH AGREEMENT ON HOW TO RUN NEW CARRIER. (GRENADA HAS, IN FACT, YET TO COMMIT ITSELF RE "LIAT 1974" AND MAY STILL BE THINKING OF SEPARATE CARRIER, EITHER ITS OWN OR UNDER CHARTER ARRANGEMENTS). AS FAR AS WE CAN DETERMINE NOTHING HAS BEEN DONE (OUTSIDE OF STUDIES) TO ENSURE ECONOMIC VIABILITY OF NEW SUCCESSOR. LIAT CONTINUES TO OPERATE ITS PREVIOUS SCHEDULE AT PREVIOUS FARES, WITH STAFF EXISTING PRIOR TO COURT DEMISE.

4. NOR WILL MATTER OF LONG-TERM FINANCING BE SIMPLY RESOLVED. CDB HAS NOT BEEN KEPT ABREAST OF DEVELOPMENTS BY COMPTON OR ANYONE ELSE AND, FURTHERMORE, HAS NOT SEEN COPIES OF ANY AUDITORS' REPORTS OR RECOMMENDATIONS RE LIAT. BANK IS BEING VERY WARY OF LIMITED OFFICIAL USE

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COMMITTING ITSELF AND SAYS ONLY THAT IT WILL ATTEND ANTIGUA MEETING "IF ASKED". OUR IMPRESSION IS THAT BANK WILL BE COOL TOWARDS IDEA OF FUNDING "LIAT 1974" UNTIL IT HAS SOME INDICATION THAT CARRIER IS MONEY-MAKING PROJECT. CDB MAY WELL INSIST ON GUARANTOR FOR ANY LOAN TO "LIAT 1974".

5. COMPTON AND TERRITORIES HAVE MANAGED TO KEEP LIAT FLYING AND HOPEFULLY HAVE AVERTED DISRUPTION IN FLOW OF TOURISTS SO VITAL

TO ECONOMIES OF CARIBBEAN ISLANDS. NEVERTHELESS, LACK OF LONGER
TERM PLANNING AND POSSIBLE DIFFICULTIES OVER FINANCING CONTINUE
TO MAKE CIVIL AVIATION PICTURE UNCERTAIN.
SIMMS

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